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FM AMEMBASSY RANGOON  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 4130  
INFO RUCNASE/ASEAN MEMBER COLLECTIVE  
RUEHBJ/AMEMBASSY BEIJING 0649  
RUEHBY/AMEMBASSY CANBERRA 9437  
RUEHKA/AMEMBASSY DHAKA 3993  
RUEHLO/AMEMBASSY LONDON 1473  
RUEHNE/AMEMBASSY NEW DELHI 3169  
RUEHUL/AMEMBASSY SEOUL 6537  
RUEHTC/AMEMBASSY THE HAGUE 0490  
RUEHKO/AMEMBASSY TOKYO 4148  
RUEHCI/AMCONSUL CALCUTTA 0591  
RUEHCN/AMCONSUL CHENGDU 0580  
RUEATRS/DEPT OF TREASURY WASHDC  
RUEHGV/USMISSION GENEVA 2524  
RHEHNSC/NSC WASHDC  
RUEKJCS/SECDEF WASHDC  
RUEKJCS/JOINT STAFF WASHDC  
RUCNDT/USMISSION USUN NEW YORK 0191  
RUEHBS/USEU BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 02 RANGOON 000214

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STATE FOR EAP/MLS; PACOM FOR FPA; TREASURY FOR OASIA:AJEWELL

E.O. 12958: DECL: 12/08/2015

TAGS: [ECON](#) [PGOV](#) [BM](#)

SUBJECT: U.S. DOLLAR MOVES UNDERGROUND IN BURMA

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Classified By: Econoff TLManlowe for Reason 1.4 (b,d).

11. (SBU) Summary: Banks in China, Japan and Singapore are now refusing to handle Burma's government and commercial dollar-denominated business, forcing many companies to transfer their business transactions to their personal offshore accounts to keep cash flowing. Meanwhile, the ruling regime is pushing traders to switch to euros for cross-border trade, instead of U.S. dollars. U.S. sanctions on financial transactions have significantly reduced the regime's foreign exchange reserves. End summary.

12. (C) Burmese business representatives recently told us that banks in China, Japan and Singapore have refused their dollar-denominated commercial transactions. An official of the Myanmar Foreign Trade Bank (MFTB) confirmed that, as of January 2006, the Bank of China will not accept US dollar transactions with either of the Burmese banks officially authorized to conduct business in foreign currency, the MFTB and the Myanmar Investment and Commercial Bank (MICB). The banks will process transactions denominated in euros. The MFTB official said that they could still conduct dollar transactions as of February 7 through accounts MFTB holds in Korea (Korea Exchange Bank), Singapore (UBS, United Overseas Bank and OCBC Bank), and Malaysia (Public Bank and May Bank). The official added that one of his managers told the staff verbally that the Bank of Tokyo also would no longer accept Burma's dollar transactions. Our business contacts tell us that they have switched their companies' dollar accounts abroad into personal accounts under their own names so they can still conduct business transactions using U.S. dollars.

13. (C) A Director at the Commerce Ministry told us that the Bank of China had "softly advised" the GOB to switch to euros because it feared potential problems when clearing Burmese dollar transactions through the US financial system. The Director said he expected the volume of black market currency

trade to increase as a result of this decision. On February 6, Finance and Revenue Minister Hla Tun announced that border branches of MFTB and MICB had converted customers' commercial dollar accounts into euro accounts, and urged the public to use euros instead of dollars for transactions with all neighboring nations. Many private traders in Rangoon, as well as government officials, already used bank Letters of Credit denominated in euros for international transactions, but traders in border areas have traditionally preferred dollars. The Commerce Ministry contact confirmed that border branches of MFTB and MICB have converted USD accounts into euros, as the Minister ordered, but the GOB stopped short of forbidding the use of dollars.

¶4. (C) These actions come amidst signs that the GOB faces a significant crunch in cash reserves. A well-connected source told us that the GOB has called in many of its assets placed around the world, and said regime officials had chartered a flight to bring gold and currency back into the country from Switzerland. Private companies must wait longer than normal for overdue GOB payments, according to our contacts in the onshore oil and mining fields.

¶5. (C) Comment: The high cost of the GOB's move to Pyinmana and world oil prices have drained regime coffers. The Bank of China's and Bank of Tokyo's refusal to accept US dollar transactions from the GOB and Burmese companies adds to the pressures. Burmese business people are adept at accommodating changing policies, and the dollar remains their currency of choice. To adapt this time, they will switch to cash and evade official channels, diluting the GOB's recent efforts to capture more tax revenue from border trade and further reducing foreign currency holdings. Businesspersons tell us that the sanction on financial transactions has a much greater impact than the trade sanction. Dwindling

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foreign exchange reserves are the result. End comment.  
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